

# **QUARTERLY REPORT**

**LICENSEE ATLANTIC CITY SHOWBOAT, INC**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2001**

**TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**

**BALANCE SHEETS**

AS OF SEPTEMBER 30, 2001 AND 2000

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	24,466	\$ 20,978
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2001, \$1,619 ; 2000, \$1,514 ).....NOTE 3	6,081	5,919
4	Inventories.....	2,326	2,334
5	Prepaid Expenses and Other Current Assets.....NOTE 4	3,196	3,888
6	Total Current Assets.....	36,069	33,119
7	Investments, Advances, and Receivables.....NOTE 5 & 11	909,543	800,503
8	Property and Equipment - Gross.....	513,445	494,227
9	Less: Accumulated Depreciation and Amortization.....	(252,456)	(237,894)
10	Property and Equipment - Net.....	260,989	256,333
11	Other Assets.....	2,553	2,920
12	Total Assets.....	\$ 1,209,154	\$ 1,092,875
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	3,923	4,633
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	-	-
17	Income Taxes Payable and Accrued.....	-	-
18	Other Accrued Expenses.....NOTE 6	31,403	33,623
19	Other Current Liabilities.....	615	760
20	Total Current Liabilities.....	35,941	39,016
	Long-Term Debt:		
21	Due to Affiliates.....NOTE 8	715,000	715,000
22	Other.....NOTE 9	848	-
23	Deferred Credits.....	22,095	17,957
24	Other Liabilities.....NOTE 7	389,303	248,876
25	Commitments and Contingencies.....NOTE 12		
26	Total Liabilities.....	1,163,187	1,020,849
27	Stockholders', Partners', or Proprietor's Equity.....	45,967	72,026
28	Total Liabilities and Equity.....	\$ 1,209,154	\$ 1,092,875

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	Revenue:		
1	Casino.....	\$ 264,175	\$ 267,203
2	Rooms.....	11,843	14,230
3	Food and Beverage.....	32,171	29,973
4	Other.....	5,232	4,941
5	Total Revenue.....	313,421	316,347
6	Less: Promotional Allowances.....	32,950	31,600
7	Net Revenue.....	280,471	284,747
	Costs and Expenses:		
8	Cost of Goods and Services.....	139,787	141,407
9	Selling, General, and Administrative.....	65,649	63,109
10	Provision for Doubtful Accounts.....	959	599
11	Total Costs and Expenses.....	206,395	205,115
12	Gross Operating Profit.....	74,076	79,632
13	Depreciation and Amortization.....	17,732	17,240
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....NOTE 2,9 & 10	32,465	23,510
16	Income (Loss) from Operations.....	23,879	38,882
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....NOTE 8	(43,292)	(41,768)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(601)	(644)
20	Nonoperating Income (Expense) - Net.....	602	826
21	Total Other Income (Expenses).....	(43,291)	(41,586)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(19,412)	(2,704)
23	Provision (Credit) for Income Taxes.....	-	-
24	Income (Loss) Before Extraordinary Items.....	(19,412)	(2,704)
	Extraordinary Items (Net of Income Taxes -		
25	2001, \$ ; 2000, \$ ).....	-	-
26	Net Income (Loss).....	\$ (19,412)	\$ (2,704)

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	Revenue:		
1	Casino.....	\$ 96,678	\$ 97,742
2	Rooms.....	4,802	5,421
3	Food and Beverage.....	12,477	10,940
4	Other.....	2,147	2,011
5	Total Revenue.....	116,104	116,114
6	Less: Promotional Allowances.....	13,310	12,012
7	Net Revenue.....	102,794	104,102
	Costs and Expenses:		
8	Cost of Goods and Services.....	48,260	49,997
9	Selling, General, and Administrative.....	25,470	21,651
10	Provision for Doubtful Accounts.....	517	134
11	Total Costs and Expenses.....	74,247	71,782
12	Gross Operating Profit.....	28,547	32,320
13	Depreciation and Amortization.....	5,831	5,747
	Charges from Affiliates Other than Interest:		
14	Management Fees.....NOTE 2	-	-
15	Other.....NOTE 8	15,129	7,902
16	Income (Loss) from Operations.....	7,587	18,671
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(14,428)	(12,903)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(218)	(239)
20	Nonoperating Income (Expense) - Net.....	197	380
21	Total Other Income (Expenses).....	(14,449)	(12,762)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(6,862)	5,909
23	Provision (Credit) for Income Taxes.....	-	-
24	Income (Loss) Before Extraordinary Items.....	(6,862)	5,909
	Extraordinary Items (Net of Income Taxes -		
25	2001, \$ ; 2000, \$ ).....	-	-
26	Net Income (Loss).....	\$ (6,862)	\$ 5,909

The accompanying notes are an integral part of the financial statements.  
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TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2001

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 1999.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ 4,237	\$ 74,729
2	Net Income (Loss) - 2000.....							(9,350)	(9,350)
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2000.....	1,500	70,492	-	-	-	-	(5,113)	65,379
11	Net Income (Loss) - 2001.....							(19,412)	(19,412)
12	Contribution to Paid-in -Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	1999 Income Tax Adjustment								
16									
17									
18									
19	Balance, September 30, 2001.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (24,525)	\$ 45,967

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

**STATEMENTS OF CASH FLOWS**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 24,538	\$ 19,881
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(19,610)	(19,136)
5	Proceeds from Disposition of Property and Equipment.....	166	276
6	Purchase of Casino Reinvestment Obligations.....	(2,732)	(2,401)
7	Purchase of Other Investments and Loans/Advances made.....		
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(22,176)	(21,261)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....		
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....		
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	-	-
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	2,362	(1,380)
25	Cash and Cash Equivalents at Beginning of Period.....	22,104	22,358
26	Cash and Cash Equivalents at End of Period.....	\$ 24,466	\$ 20,978
	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ -	\$ -
28	Income Taxes.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (19,412)	\$ (2,704)
	Noncash Items Included in Income and Cash Items		
	Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	17,731	17,240
31	Amortization of Other Assets.....	(341)	256
32	Amortization of Debt Discount or Premium.....		
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	22	(191)
36	(Gain) Loss on Casino Reinvestment Obligations.....	601	512
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	(47)	(289)
39	Net (Increase) Decrease in Inventories.....	(196)	319
40	Net (Increase) Decrease in Other Current Assets.....	(10)	208
41	Net (Increase) Decrease in Other Assets.....	413	361
42	Net Increase (Decrease) in Accounts Payable.....	(213)	171
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(4,834)	(6,232)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	116,383	97,935
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(85,559)	(87,705)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 24,538	\$ 19,881

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 20,622	\$ 19,136
49	Less: Capital Lease Obligations Incurred.....	1,012	
50	Cash Outflows for Property and Equipment.....	\$ 19,610	\$ 19,136
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	180,179	\$ 10,754		
2	Food	1,122,564	13,477		
3	Beverage	5,755,667	6,860		
4	Travel			8,168	1,429
5	Bus Program Cash			750,329	10,928
6	Other Cash Complimentaries			842,098	26,461
7	Entertainment	35,347	830		
8	Retail & Non-Cash Gifts				
9	Parking				
10	Other	117,587	1,029	23,427	1,757
11	Total	7,211,344	\$ 32,950	1,624,022	\$ 40,575

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	63,291	\$ 4,393		\$ -
2	Food	463,799	5,572		
3	Beverage	1,735,925	2,463		
4	Travel			2,745	480
5	Bus Program Cash			287,224	3,806
6	Other Cash Complimentaries			423,560	9,962
7	Entertainment	25,463	382		
8	Retail & Non-Cash Gifts				
9	Parking				
10	Other	57,213	500	7,433	557
11	Total	2,345,691	\$ 13,310	720,962	\$ 14,805



**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**September 30, 2001 and 2000**

**(1) Summary of Significant Accounting Policies**

**Nature of Operations**

Atlantic City Showboat, Inc. (the Company), is a wholly owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly owned subsidiary of Showboat, Inc. (SBO). SBO is a wholly owned subsidiary Harrah's Operating Company, Inc. (HOC), which is a direct wholly owned subsidiary of Harrah's Entertainment, Inc. (HARRAH'S). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar, and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (Atlantic City Showboat).

On June 1, 1998, HARRAH'S, a Delaware corporation, purchased SBO and its subsidiaries in an all cash transaction.

**Disclosure**

There has been no significant changes to the information submitted in our December 31, 2000 Annual Report.

**(2) Related Party Transactions**

The Company and SBO are parties to a Parent Services Agreement whereby SBO provides the Company with executive, financial, data processing, legal, marketing, tax planning and compliance, and administrative services. SBO's services are intended to support and supplement the routine functions and responsibilities of the Company's staff and are not intended to substitute for the Company's performance or OSI's oversight responsibilities. In addition to the services outlined above, SBO has also granted the Company a non-exclusive right to the use of each of SBO's trademarks, service marks, tradenames, and logos in the operations of the Company's business, including the registered trademark "Showboat." In consideration for such services and license, the Company has agreed to pay SBO a fee equal to five percent of gross revenues.

In 1999 the Company entered into a new license agreement with SBO for the use of certain trademarks. Under the agreement the Company is required to pay a fixed license fee of \$18,478,000 per year through 2000. In September 2001, the licensing agreement was renewed for an additional five-year period and the annual fee increased to \$26,967,000. For the nine months ended September 30, 2001 the Company's license fee was \$20,225,403.

The Company is charged a fee from HOC for administrative services (including legal, accounting and insurance). The Company was charged \$4,447,801 for the nine months ended September 30, 2001.

Continued

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**

**Related Party Transactions (continued)**

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs of the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due to (from) affiliates in the accompanying statements.

**(3) Receivables and Patron's Checks**

As of September 30, 2001 and 2000, receivables and patron's checks consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Casino	\$4,847	\$4,526
Hotel	321	67
Due from CRDA	168	172
Other	<u>2,364</u>	<u>2,668</u>
	7,700	7,433
Less allowance for doubtful accounts	<u>1,619</u>	<u>1,514</u>
	<u>\$6,081</u>	<u>\$5,919</u>

**(4) Prepaid Expenses & Other Current Assets**

As of September 30, 2001 and 2000, prepaid expenses and other current assets consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Prepaid income taxes	0	\$1,287
Prepaid slot license	1,261	1,339
Prepaid Insurance	33	42
Prepaid Rent	0	0
Deposits	236	222
Other	<u>1,666</u>	<u>998</u>
	<u>\$3,196</u>	<u>\$3,888</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**

**(5) Investments, Advances & Receivables**

As of September 30, 2001 and 2000, investments, advances and receivables consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Casino Reinvestment Development Authority Deposits – Net of Valuation Allowance of \$3,730 and \$3,526 at September 30, 2001 and 2000 respectively.	\$11,958	\$8,997
Casino Reinvestment Development Authority Bonds – Net of Valuation Allowance of \$2,440 and \$1,907 at September 30, 2001 and 2000 respectively.	5,764	4,707
Due From Affiliates	<u>891,821</u>	<u>786,799</u>
	<u>\$909,543</u>	<u>\$800,503</u>

As of September 30, 2001 and 2000, due from affiliates consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Showboat Operating Company	\$11	\$61
Harrah's Ak-Chin.	290	0
Showboat East Chicago	0	4
Harrah's Atlantic City	2,265	3,383
Showboat Indiana	135	146
Corporate Debt & Investments	695,839	651,107
Harrah's New Orleans	2	2
Corporate Bank Accounts	192,852	131,020
Corp Admin	359	1,064
Harrah's Marketing Group	6	0
Harrah's Lake Tahoe	22	0
Harrah's North Kansas City	32	0
Harrah's Metropolis	8	0
Harrah's Illinois Corp	<u>0</u>	<u>12</u>
	<u>\$891,821</u>	<u>\$786,799</u>

**(6) Other Accrued Expenses**

As of September 30, 2001 and 2000, other accrued expenses consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Salaries and wages	\$5,223	\$6,333
Taxes, other than taxes on income	1,998	1,843
Accrued advertising and promotion	515	1,978
Accrued interest	17,661	17,662
Warehouse Lease	138	211
Other	<u>5,868</u>	<u>5,596</u>
	<u>\$31,403</u>	<u>\$33,623</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**

**(7) Other Liabilities**

As of September 30, 2001 and 2000, other liabilities consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Due to Affiliates, long-term	\$389,103	\$248,220
Other	<u>200</u>	<u>656</u>
	<u>\$389,303</u>	<u>\$248,876</u>

As of September 30, 2001 and 2000, due to affiliates consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Showboat Inc.	\$125,180	\$80,442
Corporate Allocations	33,903	19,484
Las Vegas	211	224
Lake Tahoe	0	4
Reno	14	16
Memphis IT	1,516	72
Ocean Showboat	38	38
Harrah's Atlantic City	2,458	1,049
Harrah's Tunica	10	0
Harrah's Illinois	21	0
Harrah's Laughlin	5	0
Rio Las Vegas	85	14
Risk Management	5,286	3,192
National Brand Advertising Fund	3,475	470
North East Regional Office	323	0
Showboat Operating Company	528	528
Corporate Debt & Investment	82,114	53,483
AC Showboat Elimination	<u>133,936</u>	<u>89,204</u>
	<u>\$389,103</u>	<u>\$248,220</u>

**(8) Long Term Debt, Due to Affiliates**

As of September 30, 2001 and 2000 long-term debt, due to affiliates consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
9 ¼ % Promissory Note - Due 2008	\$215,000	\$215,000
7 ½ % Promissory Note - Due 2009	<u>500,000</u>	<u>500,000</u>
Total Long Term Debt	<u>\$715,000</u>	<u>\$715,000</u>

On May 18, 1993, SBO issued \$275,000,000 of 9 ¼ % First Mortgage Bonds due 2008 (9 ¼ % Bonds) and subsequently loaned approximately \$215,000,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9 ¼ % Bonds.

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**

**(8) Long Term Debt, Due to Affiliates (Cont.)**

Subsequent to the closing of the acquisition, HARRAH'S completed tender offers and consent solicitations for SBO's 9 ¼ % Bonds. As a result of the receipt of the requisite consents, HARRAH'S eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 ¼ % Bonds. The Company's intercompany note with SBO remained unchanged.

On January 15, 1999 the HOC loaned the Company \$500,000,000 which loan is evidenced by an intercompany note. The loan is secured by the assets of the Company.

For value received, the Company promises to pay HOC the principle sum of \$500,000,000 on January 15, 2009 and to pay interest thereon at the rate of 7 ½ % per annum. Payments of interest shall be made semiannually on January 15 and July 15 of each year, commencing July 15, 1999, and shall be calculated on the basis of a 360-day year.

**(9) Leases**

The Company leases a warehouse under a long-term lease agreement that is capitalized as a capital lease. The Company has the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928,000.

The Company is leasing 10 1/2 acres of Boardwalk property in Atlantic City, New Jersey for a term of 99 years commencing October 1983. Annual rent payments, which are payable monthly, commenced upon opening of the Atlantic City Showboat. The rent is adjusted annually based upon changes in the Consumer Price Index. In April 2001, the annual rent increased \$293,000 to \$9,966,000. The Company is responsible for taxes, assessments, insurance and utilities.

On January 28, 1998, a subsidiary of SBO acquired the 10 1/2 acres of Boardwalk property and the lease from SUN International North America Inc. (SUN). The company's obligations under the lease remain intact and SBO's subsidiary will assume the duties as Lessor.

**(10) EMPLOYEE BENEFIT PLANS**

The Company maintains a retirement and savings plan for eligible employees who are not covered by a collective bargaining agreement. Under the terms of the plan adopted on July 1, 1999, eligible employees may defer up to 6% of their compensation, as defined, of which 100% of the deferral is matched by the Company. Eligible employees may contribute an additional 10% of their compensation, which will not be matched by the Company. Amounts contributed by the Company vest over a five-year period. The Company contributed \$1,730,000 and \$1,880,000 to this plan for the nine months ended September 30, 2001 and 2000, respectively.

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of man-hours worked. Contributions to the plans were \$575,000 and \$513,000 during the nine months ended September 30, 2001 and 2000, respectively.

HARRAH'S has various incentive plans under which restricted shares or stock options may be granted to key employees of the Company.

Continued

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**

**EMPLOYEE BENEFIT PLANS (continued)**

Compensation expense of \$392,000 and \$501,000 was recognized for the nine months ended September 30, 2001 and 2000, respectively.

**(11) NEW JERSEY INVESTMENT OBLIGATION**

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the Casino Reinvestment Development Authority (CRDA). CRDA Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Company includes CRDA investment bonds and funds on deposit in deferred charges and other noncurrent assets in the accompanying balance sheets. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment obligations.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. At September 30, 2001 and 2000, Investments, Advances & Receivables include \$17,721,000 and \$13,704,000, respectively, representing the Company's bond purchases and deposits with the CRDA of \$23,891,000 at September 30, 2001 and \$19,138,000 at September 30, 2000 net of a valuation allowance of \$6,170,000 and \$5,433,000, respectively. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

The Company is eligible to receive approximately \$11.5 million in funding credits reserved by the CRDA, as a result of the completion of the hotel expansion program at the Atlantic City Showboat, completed in 1994. To date, the Company has received approximately \$11.3 million of the \$11.5 million. The remaining \$.2 million of reserved funding credits will be distributed in the future.

In December 1999 the CRDA approved a credit exchange agreement between the Company and Harrah's Casino Hotel. (Harrah's) The CRDA approved an exchange of \$4.6 million of Harrah's South Jersey Future Obligations for 4.6 million from the Company's Atlantic City Housing Current Obligations. The exchange was implemented by the immediate transfer of \$4.6 million from the Company's Atlantic City Housing Obligations to Harrah's. In accordance with the exchange agreement, \$4.6 million of Harrah's South Jersey Future Obligations shall be transferred back to the Company's South Jersey Current Obligations upon payment by Harrah's of such Obligations received by the CRDA on future Quarterly Payment Dates.

**(12) COMMITMENTS AND CONTINGENCIES**

The Company is a party in various legal proceedings with respect to the conduct of its casino and hotel operations. Although a possible range of loss cannot be estimated, in the opinion of management, settlement or resolution of the proceedings should not have a material adverse impact on the financial position or results from operations of the Company.

## STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

STATE OF New Jersey :  
:  
COUNTY OF Atlantic : ss

Ray Spera being duly sworn according to law upon my oath deposes and says:

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

Signature

Vice President of Finance & Admin.  
Title

2369-11  
License Number

Atlantic City Showboat, Inc.  
Casino Licensee